

DIRECT TESTIMONY AND EXHIBITS OF
ZACHARY J. PAYNE
ON BEHALF OF
THE SOUTH CAROLINA OFFICE OF REGULATORY STAFF
DOCKET NO. 2019-5-G
IN RE: ANNUAL REVIEW OF PURCHASED GAS ADJUSTMENT AND
GAS PURCHASING POLICIES OF
DOMINION ENERGY SOUTH CAROLINA, INCORPORATED

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND OCCUPATION.

A. My name is Zachary J. Payne. My business address is 1401 Main Street, Suite 900, Columbia, South Carolina, 29201. I am employed by the South Carolina Office of Regulatory Staff (“ORS”) in the Audit Department as an Audit Manager.

Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A. I received a Bachelor of Science Degree in Business Administration with a double major in Accounting and Economics from the University of South Carolina in May 2013. I began employment with ORS in March 2015 and since have worked on cases dealing with the regulation of nuclear waste, electric, natural gas, water and wastewater companies.

Q. HAVE YOU TESTIFIED PREVIOUSLY BEFORE THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA?

A. Yes.

Q. WHAT IS THE MISSION OF THE OFFICE OF REGULATORY STAFF?

1 **A.** ORS represents the public interest as defined by the South Carolina General
2 Assembly as:

3 [T]he concerns of the using and consuming public with respect to
4 public utility services, regardless of the class of customer, and
5 preservation of continued investment in and maintenance of utility
6 facilities so as to provide reliable and high-quality utility services.

7 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?**

8 **A.** The purpose of my testimony is to present ORS Audit Department's findings and
9 recommendations resulting from our examination of the Dominion Energy South
10 Carolina, Incorporated ("Company") Purchased Gas Adjustment ("PGA") for the year
11 ended July 31, 2019 ("review period"). In Docket No. 87-426-G, Order No. 87-898,
12 dated August 14, 1987, the Public Service Commission of South Carolina
13 ("Commission") instituted an annual examination of the PGA and Gas Purchasing
14 Policies of the Company. In accordance with the above referenced Order, ORS Audit
15 Staff examined the Company's PGA for the review period.

16 **Q. WHAT ARE THE MOST RECENT COST OF GAS FACTORS FILED WITH**
17 **THIS COMMISSION?**

18 **A.** In PGA Docket No. 2006-5-G, Order No. 2006-679, dated November 13, 2006,
19 the Company was authorized to adjust its cost of gas factors on a monthly basis for a
20 "material difference" defined as \$0.01, or more, per therm in any cost of gas factor
21 beginning with the first billing cycle of each month. In Docket No. 2009-5-G, Order No.
22 2009-910, dated December 29, 2009, the amount designated as a "material difference"
23 was increased to an amount greater than \$0.04 per therm. During the review period the
24 Company's Demand Cost of Gas factors ("DCOG") and Commodity Cost of Gas factors

1 (“CCOG”) were adjusted during the months of November 2018 and January, February
2 and June 2019. The Company’s beginning and ending DCOG and CCOG during the
3 review period were as listed below:

<u>DCOG Per Therm</u>	<u>As of August 1, 2018</u>	<u>As of July 31, 2019</u>
Residential	\$0.29320	\$0.30055
Small/Med. General Service	\$0.18178	\$0.17839
Large General Service	\$0.26057	\$0.30011
<u>CCOG Per Therm</u>	\$0.29678	\$0.32804

9 **Q. DID ORS CONDUCT AN EXAMINATION OF THE COMPANY’S PGA**
10 **(OVER)/UNDER COLLECTION CALCULATIONS?**

11 **A.** Yes. ORS examined the Company’s cumulative PGA (over)/under collection
12 calculations for the review period and traced amounts to the books and records of the
13 Company.

14 **Q. IN CONNECTION WITH YOUR TESTIMONY, DID YOU PREPARE, OR**
15 **CAUSE TO BE PREPARED, CERTAIN EXHIBITS?**

16 **A.** Yes. Audit Exhibit ZJP-1 through Audit Exhibit ZJP-3 are attached to my
17 testimony.

18 **Q. WHAT IS INCLUDED IN AUDIT EXHIBIT ZJP-1, PURCHASED GAS**
19 **ADJUSTMENT (OVER)/UNDER COLLECTION?**

20 **A.** Audit Exhibit ZJP-1 presents, for each month of the review period, the
21 components which comprise the cumulative PGA (over)/under collection. These
22 components are:

1 **Commodity (Over)/Under Collection** – These amounts represent the difference in the
2 Company's actual firm commodity costs, on a monthly basis, compared to the firm
3 commodity benchmark PGA filings during the review period. The commodity
4 (over)/under collection for the review period increased the under-collection by
5 \$7,352,312.

6 **Demand (Over)/Under Collection** – These amounts represent the difference in the
7 actual demand charges incurred by the Company as compared to demand charges billed
8 and collected from customers. The demand (over)/under collection for the review period
9 increased the under-collection by \$1,086,254.

10 **Uncollectibles – Commodity Only** – In Order No. 2006-679 dated November 13, 2006,
11 issued in Docket No. 2006-5-G, the Company was authorized to recover its uncollectible
12 gas costs through the commodity cost of gas, beginning with the first billing cycle in
13 November 2007. This process allows the Company to recover the correct amount of
14 uncollectible gas cost expense that it has actually incurred. Uncollectible gas cost
15 expense for the review period increased the under-collection by \$124,860.

16 **Unbilled Revenue Adjustments** – In compliance with Order No. 2009-910 dated
17 December 29, 2009, issued in Docket No. 2009-5-G, the Company converted the PGA
18 administration process from a cycle-month sales calculation basis to a calendar month
19 sales calculation basis. This process is more effective and precise in matching calendar
20 month gas costs with the sales of that month's gas. Unbilled revenue adjustments were
21 applied to the demand component of the cost of gas factor. The net unbilled revenue
22 adjustment for the review period decreased the under-collection by \$617,559.

Interest/Carrying Cost – In accordance with Order No. 2006-679, carrying cost is computed using the rate of interest, as of the first day of each month, for 10-year U.S. Government Treasury Bills plus an all-in spread of 65 basis points, not to exceed 6% and shall not be applied to (over)/under collection balances in excess of \$20 million. The computed carrying costs for the review period increased the under-collection by \$324,855. The interest rates used to calculate carrying costs during the review period have been verified to those in the Wall Street Journal on the first published day of each month.

Q. WHAT IS INCLUDED IN AUDIT EXHIBIT ZJP-2, INTERSTATE STORAGE INVENTORY ACTIVITY?

A. Audit Exhibit ZJP-2 shows the detail of gas held in interstate pipeline storage facilities during the review period. ORS has verified injections and withdrawals, by month, for each of the storage facilities on the Southern and Transco interstate pipelines. The Southern system's Contract Storage Service ("CSS") has two facilities: Muldon, located in Prairie County, Mississippi and Bear Creek, located in Bienville Parish, Louisiana. The Transco system has four facilities: General Storage Service ("GSS") located in Potter and Clinton counties, Pennsylvania; Eminence Storage Service ("ESS") located in Covington County, Mississippi; a Liquefied Natural Gas Storage Service ("LG-A") located in Carlstadt, New Jersey; and Washington Storage Service ("WSS") located in St. Landry Parish, Louisiana. For the review period, total storage injections were 5,787,484 dekatherms at a total cost of \$17,591,358 which converts to a weighted average injection rate of \$3.04 per dekatherm. Withdrawals totaled 4,497,700 dekatherms at a total cost of \$14,032,233 which converts to a weighted average

withdrawal rate of \$3.12 per dekatherm. Total interstate pipeline storage inventory at July 31, 2019 equaled 4,667,344 dekatherms with a total cost of \$13,765,479 or weighted average cost of \$2.95 per dekatherm.

Q. WHAT IS INCLUDED IN AUDIT EXHIBIT ZJP-3, LNG INVENTORY ACTIVITY?

A. Audit Exhibit ZJP-3 details, by month, total Liquefied Natural Gas (“LNG”) inventory activities for the Company’s Salley and Bushy Park facilities. ORS has verified these inventories to the books and records of the Company. This exhibit summarizes all the activity affecting LNG inventory including boil-off, vaporization, liquefaction, additional supply trucked in to Salley, derime gas, gas lost to atmosphere, volume adjustments, and direct costs capitalized. Capitalized costs at both facilities consist mostly of expenses associated with the liquefaction capability at the Bushy Park facility. LNG inventory on July 31, 2019 totaled 1,579,137 dekatherms at a total cost of \$5,931,110 or a weighted average rate of \$3.76.

Q. WHAT IS THE STATUS OF THE COMPANY’S HEDGING PROGRAM?

A. Commission Order No. 2012-39 issued January 12, 2012, ordered that the Company’s hedging program be suspended effective on the date of the order. The last of the Company’s outstanding hedges settled on January 10, 2013.

Q. WHAT ARE ORS’S FINDINGS REGARDING THE COMPANY’S PGA (OVER)/UNDER COLLECTION?

A. Based on our examination, it is the opinion of ORS that the Company’s PGA under-collection at July 31, 2019 of \$14,683,872, shown on Company Witness Elliott’s Exhibit No. ____ (RRE-1), is accurately stated.

1 **Q. WILL YOU UPDATE YOUR TESTIMONY BASED ON INFORMATION THAT**
2 **BECOMES AVAILABLE?**

3 **A.**Yes. ORS fully reserves the right to revise its recommendations via supplemental
4 testimony should new information not previously provided by the Company, or other
5 sources, becomes available.

6 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

7 **A.**Yes, it does.

DOMINION ENERGY SOUTH CAROLINA - DOCKET NO. 2019-5-G
PURCHASED GAS ADJUSTMENT (OVER)/UNDER COLLECTION
FOR THE TWELVE MONTHS ENDED JULY 31, 2019

	2018					2019							Total
	August	September	October	November	December	January	February	March	April	May	June	July	
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Beginning Balance	6,413,145	8,552,748	11,027,743	13,522,723	13,125,252	13,074,477	7,248,463	4,743,199	5,336,448	6,979,112	9,599,595	12,328,241	
Commodity (Over)/Under Collection	(391,897)	(181,768)	1,577,452	6,631,020	7,441,277	3,346,703	(5,210,965)	(356,701)	(2,693,897)	(1,514,599)	(526,639)	(767,674)	7,352,310
Demand (Over)/Under Collection	2,502,927	3,026,982	2,823,930	60,302	(5,835,606)	(7,003,377)	(4,060,996)	(308,652)	935,569	2,835,349	3,098,203	3,011,623	1,086,254
Uncollectibles-Commodity Only	16,307	3,488	(5,451)	(2,957)	3,104	3,761	8,187	6,387	21,391	25,647	24,769	20,227	124,860
Unbilled Revenue Adjustment	(12,628)	(407,650)	(1,943,694)	(7,125,779)	(1,695,775)	(2,192,865)	6,745,262	1,238,615	3,361,300	1,251,827	105,148	58,680	(617,559)
Ending Balance Before Interest	8,527,854	10,993,800	13,479,980	13,085,309	13,038,252	7,228,699	4,729,951	5,322,848	6,960,811	9,577,336	12,301,076	14,651,097	
Interest/Carrying Cost	24,894	33,943	42,743	39,943	36,225	19,764	13,248	13,600	18,301	22,259	27,165	32,770	324,855
Ending Balance	8,552,748	11,027,743	13,522,723	13,125,252	13,074,477	7,248,463	4,743,199	5,336,448	6,979,112	9,599,595	12,328,241	14,683,867	
Interest Rate	3.503%	3.705%	3.805%	3.663%	3.334%	3.281%	3.361%	3.066%	3.155%	2.789%	2.650%	2.684%	
Purchased Gas Adjustment (Over)/Under Collection as of 7/31/19												<u><u>\$ 14,683,867</u></u>	

DOMINION ENERGY SOUTH CAROLINA - DOCKET NO. 2019-5-G
INTERSTATE STORAGE INVENTORY ACTIVITY
FOR THE TWELVE MONTHS ENDED JULY 31, 2019

TOTAL INTERSTATE PIPELINE STORAGE

	Injections			Withdrawals			Balance		
	DT's	Price	Amount	DT's	Price	Amount	DT's	Amount	Wtd. Cost
	#	\$	\$	#	\$	\$	#	\$	\$
Beg. Bal.							3,377,560	10,206,354	3.02181
Aug-18	570,210	2.86265	1,632,311	(93,944)	2.94868	(277,011)	3,853,826	11,561,654	3.00005
Sep-18	595,734	2.93529	1,748,655	(101,549)	2.96669	(301,264)	4,348,011	13,009,045	2.99195
Oct-18	465,293	3.12279	1,453,012	(184,773)	2.93280	(541,902)	4,628,531	13,920,155	3.00747
Nov-18	397,339	3.54557	1,408,794	(410,834)	2.95546	(1,214,205)	4,615,036	14,114,744	3.05843
Dec-18	404,313	4.67511	1,890,207	(755,234)	3.01974	(2,280,608)	4,264,115	13,724,343	3.21857
Jan-19	632,823	3.47210	2,197,222	(1,022,717)	3.19761	(3,270,249)	3,874,221	12,651,316	3.26551
Feb-19	211,114	2.94436	621,595	(572,369)	3.24108	(1,855,092)	3,512,966	11,417,819	3.25019
Mar-19	382,032	2.94465	1,124,952	(699,288)	3.21781	(2,250,177)	3,195,710	10,292,594	3.22075
Apr-19	325,078	2.77295	901,424	(290,687)	3.18356	(925,419)	3,230,101	10,268,599	3.17903
May-19	611,736	2.62621	1,606,549	(83,748)	3.13842	(262,836)	3,758,089	11,612,312	3.08995
Jun-19	633,847	2.69273	1,706,778	(152,726)	3.04723	(465,391)	4,239,210	12,853,699	3.03210
Jul-19	557,965	2.32964	1,299,859	(129,831)	2.98911	(388,079)	4,667,344	13,765,479	2.94932
	<u>5,787,484</u>	<u>3.03955</u>	<u>17,591,358</u>	<u>(4,497,700)</u>	<u>3.11987</u>	<u>(14,032,233)</u>			
Total Interstate Pipeline Storage as of 7/31/19							<u>4,667,344</u>	<u>13,765,479</u>	<u>2.94932</u>

Audit Exhibit ZJP-3

**DOMINION ENERGY SOUTH CAROLINA - DOCKET NO. 2019-5-G
LNG INVENTORY ACTIVITY
FOR THE TWELVE MONTHS ENDED JULY 31, 2019**

TOTAL LNG STORAGE

	Boil-off			Vaporization			Liquefaction			Trucked in to Salley		
	DT's	Rate	Amount	DT's	Rate	Amount	DT's	Rate	Amount	DT's	Rate	Amount
	#	\$	\$	#	\$	\$	#	\$	\$	#	\$	\$
Aug-18	(53,904)	4.158727	(224,172)	0	0.000000	0	188,132	2.769699	521,069	0	0.000000	0
Sep-18	(46,455)	4.162351	(193,362)	0	0.000000	0	204,358	2.849201	582,257	0	0.000000	0
Oct-18	(38,816)	4.050289	(157,216)	(677)	4.050222	(2,742)	201,438	2.997002	603,710	0	0.000000	0
Nov-18	(37,887)	3.914483	(148,308)	0	0.000000	0	186,431	3.423701	638,284	0	0.000000	0
Dec-18	(35,377)	3.803573	(134,559)	(58,993)	3.803553	(224,383)	78,059	4.558898	355,863	0	0.000000	0
Jan-19	(31,669)	3.867852	(122,491)	(103,324)	3.867853	(399,642)	0	0.000000	0	0	0.000000	0
Feb-19	(29,939)	3.885968	(116,342)	0	0.000000	0	0	0.000000	0	0	0.000000	0
Mar-19	(34,683)	3.891936	(134,984)	(30,321)	3.891923	(118,007)	93,993	2.766940	260,073	0	0.000000	0
Apr-19	(34,311)	3.850981	(132,131)	0	0.000000	0	160,869	2.651101	426,480	0	0.000000	0
May-19	(35,713)	3.749139	(133,893)	0	0.000000	0	57,706	2.502391	144,403	0	0.000000	0
Jun-19	(30,917)	3.736229	(115,513)	0	0.000000	0	0	0.000000	0	0	0.000000	0
Jul-19	(31,412)	3.745034	(117,639)	0	0.000000	0	0	0.000000	0	0	0.000000	0
Totals	(441,083)	3.923547	(1,730,610)	(193,315)	3.852645	(744,774)	1,170,986	3.016380	3,532,139	0	0.000000	0

	Derime Gas			Gas Lost To Atmosphere			Volume Adjustment			Direct Costs Capitalized	Ending Balance		
	DT's	Rate	Amount	DT's	Rate	Amount	DT's	Rate	Amount	Amount	DT's	Rate	Amount
	#	\$	\$	#	\$	\$	#	\$	\$	\$	#	\$	\$
Beg. Bal.											1,062,547	4.158721	4,418,836
Aug-18	0		0 0.000000	0		0	0	0.000000	0	265,678	1,196,775	4.162362	4,981,411
Sep-18	0		0 0.000000	0		0	0	0.000000	0	116,526	1,354,678	4.050285	5,486,832
Oct-18	0		0 0.000000	0		0	0	0.000000	0	6,227	1,516,623	3.914494	5,936,811
Nov-18	0		0 0.000000	0		0	0	0.000000	0	(93,230)	1,665,167	3.803557	6,333,557
Dec-18	0		0 0.000000	0		0	0	0.000000	0	47,051	1,648,856	3.867851	6,377,529
Jan-19	0		0 0.000000	0		0	(17,709)	3.867864	(68,496)	27,100	1,496,154	3.885964	5,814,000
Feb-19	0		0 0.000000	0		0	0	0.000000	0	8,751	1,466,215	3.891932	5,706,409
Mar-19	(2,289)		0 0.000000	0		0	0	0.000000	0	35,700	1,492,915	3.850983	5,749,191
Apr-19	0		0 0.000000	0		0	0	0.000000	0	28,096	1,619,473	3.749143	6,071,636
May-19	0		0 0.000000	0		0	0	0.000000	0	50,753	1,641,466	3.736233	6,132,899
Jun-19	0		0 0.000000	0		0	0	0.000000	0	14,153	1,610,549	3.745020	6,031,539
Jul-19	0		0 0.000000	0		0	0	0.000000	0	17,210	1,579,137	3.755919	5,931,110
Totals	(2,289)		0 0.000000	0		0	(17,709)	3.867864	(68,496)	524,015	1,579,137	3.755919	5,931,110

Total LNG Storage as of 7/31/19

1,579,137 3.755919 5,931,110